

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NATIONAL ADOPTION
INFORMATION EXCHANGE GRANT
(90-CO-0796)**

**NATIONAL ADOPTION CENTER
PHILADELPHIA, PENNSYLVANIA**



**SEPTEMBER 2001
A-03-01-00512**



DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

September 6, 2001

Carolyn Johnson, Executive Director
National Adoption Center
1500 Walnut Street, Suite 701
Philadelphia, Pennsylvania 19102

Dear Ms. Johnson:

We have reviewed the Administration for Children and Families (ACF) grant (90-CO-0796) to the National Adoption Center (NAC) for the National Adoption Information Exchange (NAE) which was completed in September 2000. The objectives of the review were to determine if NAC:

- L Achieved the grant objectives for the NAE.
- L Complied with standard terms and conditions of the grant.
- L Maintained a system of accounting and internal controls capable of managing Federal funds.

We found that NAC was able to accomplish all grant objectives. Additionally, NAC was in compliance with the standard terms and conditions of the grant and was capable of managing federal funds. However, our limited review of NAC's accounting controls revealed two weaknesses that should be corrected:

- L The responsibilities of initiating and accounting for cash transactions were not segregated from the responsibility for reconciling cash.
- L The NAC maintained a periodic bank balance of over \$100,000 in one bank. Amounts exceeding \$100,000 are not insured through the Federal Deposit Insurance Corporation (FDIC).

We are recommending that NAC strengthen its internal controls by:

- L Segregating the duties of the accounting for cash transactions from the reconciliation of cash;
- L Developing controls to assure that the cash balance in any one bank does not exceed \$100,000, unless the deposit is fully insured or collateralized.

By letter dated August 26, 2001, NAC responded to a draft of this report. The NAC generally disagreed with our position that internal controls over the segregation of cash handling and reconciliation needed strengthening. The NAC acknowledged that cash on hand in their single bank account was excessive but the condition was a one-time occurrence that was quickly corrected. The complete text of NAC's response is included as an Appendix to this report. We have also summarized NAC's response after each applicable finding area in the report along with our comments.

BACKGROUND

The NAC is a non-profit organization founded in 1972 in Philadelphia, Pennsylvania to work with social workers and other adoption professionals to bring children and families together and expand adoption opportunities for children with special needs and from minority cultures throughout the country. The NAC receives Federal and state grants as well as funding from the Dave Thomas Foundation, Wendy's and other organizations for adoption related activities. The NAC has two current ACF grants

- L National Adoption Information Exchange Grant (90-XW-0004) begun in October 2000 and funded through September 2002. Funding for Fiscal Year 2001 was \$900,000 but may vary in future years.
- L Targeted Field-Initiated Research and Services Demonstration Grant (90-CO-0894) begun in 1999 and funded through September 2002 at \$250,000 per year.

The ACF provided \$2 million in grant funding to NAC for the NAE for a four-year period from October 1996 through September 2000. The grant was established for the purpose of collaborating with other adoption exchanges and organizations and developing, launching, maintaining and networking with other adoption organizations through an Internet National Adoption Exchange.

OBJECTIVE SCOPE AND METHODOLOGY

The NAE grant (90-CO-0796) was randomly selected for review along with other grants from a national database maintained by ACF. The objectives of this review were to determine if NAC:

- L Achieved the grant objectives.
- L Was in compliance with the standard grant terms and conditions.
- L Maintained an accounting system and system of internal controls capable of managing Federal funding.

We performed our review in accordance with Generally Accepted Government Auditing Standards. We reviewed grant objectives by reviewing progress reports, statistical reports, summaries of meetings and surveys, marketing material and contacting various personnel in collaborating adoption organizations.

Additionally, we reviewed the NAC organizational and accounting controls by reviewing accounting policies, interviewing accounting personnel and reviewing the Management Advisory Letters from the Independent CPA firm, for the grant period, to determine if NAC was capable of managing and accounting for Federal funding. We also reviewed selected internal controls to determine if they were sufficient in ordinary circumstances to prevent expenditures not in accordance with the standard terms and conditions of the grant. As for items not tested, nothing came to our attention to indicate that they were not in compliance with the standard terms and conditions of the grant. We performed our review at NAC offices in Philadelphia, Pennsylvania, during June 2001.

RESULTS OF REVIEW

Program Results

Based on our review of NAC progress reports and supporting documentation, we determined that NAC achieved all of the grant objectives. Grant progress and financial reports were submitted timely and grant expenditures were in accordance with the standard terms and conditions of the grant.

The grant had four objectives as follows:

Objective 1 Develop a collaborative approach to the NAE. The NAC accomplished this by:

Convening and advisory committee suggestions to develop and refine the NAE Online web-site to assist in a national adoption effort.

Networking with the state adoption exchange to continually update a listing of adoption Internet sites and continually including news about other adoption exchanges in their monthly newsletter.

Creating a formal linkage with the National Adoption Information Clearinghouse and National Resource Center for Special Needs Adoptions, collaborating with the Interstate Compact on Placement of Children and Interstate Compact on Adoption and Medical Assistance

Marketing the NAE with two types of brochures.

Objective 2 Provide training and technical assistance to state and regional exchanges. The NAC accomplished this by:

Assessing the needs and strengths of the state/regional adoption exchanges across the country.

Providing telephone and on-site technical assistance to adoption exchanges and implementing a peer consultation program.

Objective 3 Provide national recruitment opportunities and information and referral service. The NAC accomplished this by:

Working with national media organizations and developing and conducting national recruitment activities. Specifically, the NAC taped several television programs focusing on adoption and developed numerous articles for national magazines.

Providing a toll free telephone number.

Responding by mail to inquiries from interested families nationwide that resulted from the above-mentioned media activities. The response included adoption guidance and referrals to state/regional adoption agencies.

Objective 4 Enhance and maintain access to a national listing of waiting children and families: The NAC accomplished this by:

Increasing the national listing of adoption eligible families by over 500.

Offering exchange software to the state/regional adoption exchanges throughout the country that enabled these exchanges to work with NAE on line.

We also found that that NAC has attempted to further the cause of adoption during the grant period by educating the regional exchanges on how to place children across jurisdictional boundaries and publishing a guide with funding from the Dave Thomas Foundation. This issue was found to be a major concern for regional adoption exchanges when the NAC performed their "Needs and Strengths Assessment" for regional exchanges as required in Objective 2.

Fiscal Accountability

We determined that, in general, NAC had written accounting procedures in place to properly manage and account for Federal funding and we observed that NAC followed their policies and procedures. However, we noted two weaknesses that should be improved:

Lack of Segregation

We found that one person has responsibility for cash receipts, recording of cash disbursements, initiating cash transfers and reconciliations. We also determined that NAC had no clerical accounting department personnel with cash reconciliation, disbursement or transfer responsibilities who could assist in performing these duties.

The Office of Management and Budgets circular A-110 “Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations” at Section 21(b)(3) requires the award recipient financial management system to:

“provide for effective control over accountability for funds, property and other assets.”

Proper accounting controls require that responsibilities for the reconciliation of cash should separate from the cash recording, transfer and receipt responsibilities.

NAC Response

The NAC generally disagreed with the practicality of our recommendation and cited the amount of time, effort, and training that would be required to implement the recommendation. The NAC also cited the internal controls currently in place that were recommended by NAC’s Independent CPA regarding the handling of cash transactions and produced a letter from their Independent CPA that concurred in NAC’s position. Further, the NAC stated that the OIG audit team informed NAC that they believed that NAC’s internal controls already in place precluded misappropriation of funds.

OIG Comment

The OIG recognizes that there is a cost/benefit/risk factor in deciding whether or not to implement additional internal controls. We believe that the size of the organization and the funds that NAC is responsible for safeguarding warrants increased vigilance over cash controls. The controls cited by NAC and the Independent CPA are a positive step and mitigate, but do not preclude the risk of misappropriation.

The alternative to our recommendation is the risk that funds can be mistakenly accounted for or misappropriated. This can result in a much greater cost than the time and effort of finding someone within or outside the organization to perform the task(s).

The OIG did not intend to convey to NAC the sense that no corrective action was needed concerning controls over cash. If, in fact, this statement was made, it was to recognize that NAC had the foundation in place to readily take corrective action. As we stated in our report, in general, NAC's accounting controls are in place to ensure that the organization is capable of managing Federal funds. However, this statement does not preclude NAC's consideration of additional controls to preclude the misappropriation of funds.

Uninsured Bank Balance

Our review disclosed that NAC maintained a periodic bank balance exceeding \$100,000 in one bank, and, in one month the balance exceeded \$200,000. According to the FDIC, a balance in excess of \$100,000 in one bank is not insured under the FDIC, regardless if it is held in single or multiple accounts.

NAC Response

The NAC stated that they have been advised by their Independent CPA that excessive balances should not be permitted to happen and they have a policy against keeping more than \$100,000 in the bank. The NAC explained that the excessive balance found by the OIG was a one-time occurrence caused by a large donation of \$100,000 in April 2001 that required Board of Directors' approval for disposition. The cash was moved after the Board met in June 2001 and approved the disposition.

OIG Comment

We confirmed that NAC has a written accounting policy that prohibits bank balances over \$100,000. However, we do not agree with NAC's assertion that the excessive balance was a one-time occurrence. The NAC's Independent CPA in its June 30, 1999 Management Advisory Letter, noted that excessive balances also occurred during Fiscal Year 1999.

Also, while the \$100,000 donation in question was responsible for the balance exceeding \$200,000, the balance, nevertheless, would still have been over \$100,000 even without the donation.

CONCLUSION AND RECOMMENDATIONS

The NAC has successfully completed the objectives of the NAE grant and attempted to further the cause of adoption by educating regional adoption exchanges on placing children across jurisdictional boundaries. The NAC has also complied with standard terms and conditions of this grant. In general, the NAC has established and follows accounting procedures enabling them to manage and account for Federal funding. However, we noted two internal control weaknesses that should be corrected.

We recommend that NAC strengthen its internal controls by:

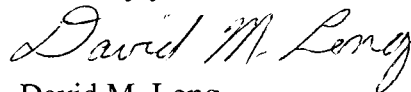
- 1) Segregating the duties of the accounting for cash transactions from the reconciliation of cash;
- 2) Developing controls to assure that the cash balance in any one bank does not exceed \$100,000 unless the deposit is fully insured or collateralized.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), HHS/OIG Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See Section 5.71 of the department's Public Information Regulation, dated August 1994, as revised.)

To facilitate identification, please refer to Common Identification Number A-03-01-00512 in all correspondence relating to this report.

Sincerely yours,



David M. Long
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Director, Division of Financial Integrity
Administration for Children and Families
Room 702 Aerospace Building
370 L'Enfant Promenade S.W.
Washington, D.C. 20447



Carolyn L. Johnson
Executive Director

NATIONAL ADOPTION CENTER

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email: nac@adopt.org

August 26, 2001

David M. Long
Regional Inspector General for Audit Services
Office of the Inspector General
150 S. Independence Mall West
Suite 316
Philadelphia, Pa 19106-3499

Re: Common Identification Number A-03-01-00512

Dear Mr. Long:

I am in receipt of the draft audit report entitled "Review of National Adoption Information Exchange Grant (90-CO-0796)". I was pleased that your auditing team was able to confirm the high quality of work that the Center performs in achieving its mission of expanding adoption opportunities throughout the United States, particularly for children with special needs and children from minority cultures. We very much believe in the need for a National Adoption Information Exchange that will provide national recruitment opportunities for the thousands of legally free children in this country who are in need of adoptive homes and the availability of a well maintained national listing of waiting children and families approved to adopt.

As your report confirms, the National Adoption Center was successful in achieving all of the objectives set forth in its original grant application. Additionally, program progress reports were thorough and both those reports and the financial reports were submitted in a timely manner. As you also indicated we have an accounting manual in place to properly manage all our funding and as your auditing team confirmed we follow those policies and procedures to insure good fiscal management.

Your report goes on to indicate two areas that you believe represent fiscal weaknesses in our internal controls. First, you noted that at one point in the grant period the Center had more than \$100,000 in the bank. In the past we had been advised by our agency auditors that we should not let this happen and we do have a policy against keeping more than \$100,000 in the bank. However, a particular set of circumstances resulted in this one time occurrence.

We received a large donation of \$100,000 in April 2001. With that amount of money, we needed to wait for board approval to see how they wanted us to handle the money. While we were waiting for a decision, we believed that the most fiscally responsible course of action was to deposit this money in the bank. The Board met in June 2001. Once we got board approval to move it, your federal auditing team was in and the majority of our other work had to stop to be of assistance to the auditors. The money was moved prior to receiving your findings.

Of particular concern to me is your office's recommendation that we "segregate the duties of the accounting for cash transactions from reconciling cash." Currently, we have one full-time trained accountant who handles our accounts payable and reconciles all of our accounts. Your report suggests that we use clerical accounting personnel to reconcile our accounts. We have a clerical staff person who is available 5 hours a week to handle the minimal accounts receivable billing that we do. She has no accounting background. Additionally, we have a 21 hour per week office manager. She has no accounting experience and her duties currently are difficult to complete in the limited number of hours our budget permits. Thus we have less than one full time clerical position in our accounting department and responsibilities of those clerical personnel are such that they have no additional time available, nor do they have the expertise to complete our bank reconciliations.

Furthermore, the reconciliation of our accounts takes approximately 8 - 10 hours monthly by a highly experienced trained accountant. It must be done in our accounting software. This software, due to licensing constraints, can only be accessible on two machines in the office. To have someone other than our accountant do the reconciliation would mean that either our Director of Finance or our Accountant would have to give up their office for 8 - 10 hours monthly or the person would need to come into the office in the evenings unsupervised to perform this function.

We have in place internal controls recommended by our outside auditors regarding the handling of cash transactions. These controls include:

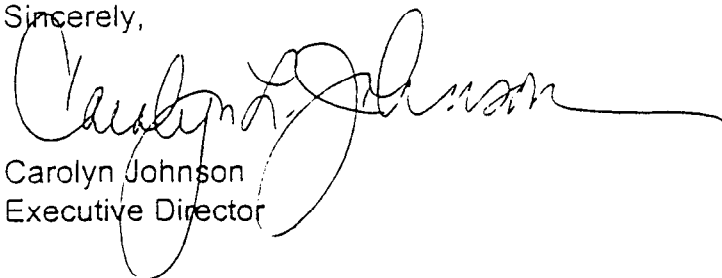
- a. No one in the Finance Department can sign checks. Furthermore, all checks over \$500 require two signatures.
- b. Bank statements are opened by the Deputy Executive Director and thoroughly reviewed before being forwarded to the Finance Department.
- c. The Director of Finance reviews the reconciliations completed by the Accountant.
- d. The Deputy Executive Director thoroughly reviews the monthly financial statements to ensure that both expenses and receipts are properly credited.

- e. The Finance Committee of the Center's Board of Directors has reviewed our internal controls for adequacy and they also review financial statements on a regular basis.

As you can see from the enclosed letter from the Center's outside auditing firm, they concur with us that our internal controls are adequate. Additionally, they express serious concerns based on their extensive auditing experience that to have a non-experienced clerical person reconciling accounts in a sophisticated accounting software package is both unrealistic and potentially could lead to significant financial inaccuracies. Finally, in discussing this concern with your audit review team, they informed me that they believed that the internal controls already in place precluded the misappropriation of funds.

Based on the information provided above, we do not believe that "segregating the duties of the accounting for cash transactions from reconciling cash" is either realistic or necessary to comply with the Office of Management and Budget Circular A-110, section 21 (b) (3) which requires that an award recipient's financial management system "provide for effective control over accountability for funds, property and other assets."

Sincerely,

A handwritten signature in black ink, appearing to read 'Carolyn Johnson', with a long horizontal flourish extending to the right.

Carolyn Johnson
Executive Director

COGEN SKLAR LLP

Certified Public Accountants
Business Consultants

L. Martin Miller, CPA
Harvey W. Grossman, CPA
Marvin A. Levey, CPA
Paul Frank, CPA

Charles M. Henry, Jr., CPA
Joseph J. Lucas, CPA
James M. Burns, CPA
Scott A. McPherson, CFE, CPA

August 9, 2001

Carolyn Johnson, Executive Director
National Adoption Center
1500 Walnut Street, Suite 701
Philadelphia, PA 19102

Dear Carolyn:

Thank you for sending me a copy of the Department of Health & Human Services Inspector General report on his recent audit of your operations. While I sympathize with the comments regarding segregation of accounting duties with regard to cash, I do not agree with the conclusions made by the audit team.

Both the audit team and I agree that you are responsible for assuring that financial information is accurately recorded, and that there is segregation of accounting duties to assure that any errors or irregularities regarding cash transactions are immediately observed and brought to the attention of management. I believe that your present system meets that requirement.

MariAnne Clarke and I had various discussions regarding your internal controls over cash transactions. Because there are only two accounting personnel in your organization, I asked MariAnne Clarke to participate in the bank reconciliation and cash management areas to increase internal controls. MariAnne Clarke opens the bank statements monthly and reviews all cancelled checks for reasonableness and signatures. In addition, she reviews the monthly reports of budget verses actual results, and investigates all material differences to assure that items have been recorded properly. In my opinion, this function is similar to a bank reconciliation function and should be considered its equivalent.

I understand that accounting theory requests that bank reconciliements be performed by an individual that does not record cash or has other functions involved with cash transactions. In a larger organization, I would strongly recommend that another accounting person reconcile the bank accounts on a monthly basis to assure increased controls over cash transactions. However, I have found in smaller organizations such as yours, assigning a secretary or non-accounting person to reconcile the bank accounts gives the organization a false sense of security, but does not actually meet the goals of a bank reconciliation. Secretarial personnel invariably do a perfunctory function of bank reconciliements and do not review cancelled checks and, more importantly, do not review any unusual items found. They see their function as a boring necessary evil, which should be performed as quickly as possible. While this may appear to be a bank reconciliation, in reality, this is not.

Carolyn Johnson, Executive Director
National Adoption Center
August 9, 2001
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In addition to the problems of asking a secretarial person with no accounting experience to perform the National Adoption Center bank reconcilements, I also question the budgetary effect on your organization. If this function takes one day per month, five percent of that individual's payroll and related benefits would be charged to administration rather than program functions. This would reduce program efforts, and would have a negative effect on your grant reporting and would make your organization less efficient in meeting its program goals.

I would be pleased to review this with you in person.

Sincerely,

A handwritten signature in cursive script that reads "L. Martin Miller".

L. Martin Miller
Partner

LMM/dje